HSBC Brazil Services PMI™

Solid new business growth contributed to fastest increase in services activity for three months.

Key findings:

- Moderate rise in business activity.
- Fastest job creation in five months.
- Business confidence remained weak in context of historic survey results.

Activity growth in the Brazilian service sector gathered momentum in November, supported by a solid increase in new business. This in turn led to a third successive month of backlog accumulation. Growing capacity pressures encouraged firms to add to their staff numbers, with the rate of job creation quickening to a five-month high. Concerning inflationary pressures, both output prices and input costs rose at accelerated rates in the latest survey period.

The headline HSBC Business Activity Index posted 52.1 in November, up from 51.8 in October, a level indicative of moderate activity growth in the Brazilian service sector. Business activity has risen continuously since August 2009. That said, the rate of expansion remained slower than the long-run series average. Where a rise in services output was signalled, growth was commonly linked by respondents to higher intakes of new business, which increased for the eighteenth successive month in November. The rate of new business growth was solid, despite easing compared to one month ago. According to respondents, new business wins reflected improving client demand.

Backlogs of work in the Brazilian service sector were accumulated for the third month running in November. Although only slight, the rate of expansion was the fastest since May 2009. Anecdotal evidence suggested that capacity pressures continued to build amid further gains in new business.

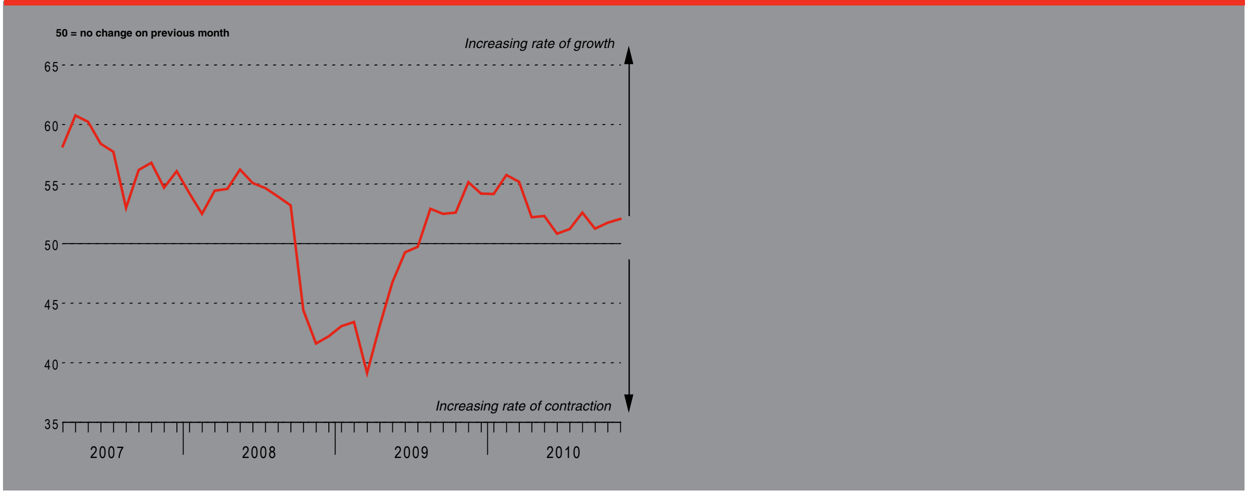
Service providers added to their staff numbers in November, with the rate of job creation accelerating since October. The latest increase was the fastest in five months. Employment growth has now been recorded for sixteen months in succession.

Output prices set by Brazilian service providers rose for the twelfth month running in November. Although only modest, the rate of output price inflation was the fastest since March. Moreover, the latest increase was stronger than the long-run series average. Higher charges were widely attributed to the need to rebuild operating margins in the face of rising input costs.

Average input costs faced by Brazil's service sector firms rose solidly in November, with panellists citing higher raw material prices as the key driver of inflation. The pace of inflation quickened since October to the strongest in four months. Even so, the latest increase was much slower than the long-run series average. Input cost inflation has been signalled throughout the series history.

Brazilian service providers were confident about the one-year outlook for business activity during November. Positive sentiment was linked by survey respondents to expectations that economic conditions will continue to improve in the next twelve months. Some firms also expect client demand to strengthen over the coming year. However, the degree of optimism was the fifth-lowest since the start of the series in March 2007.

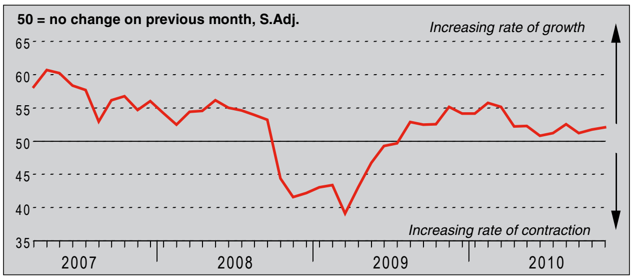
Business Activity Index

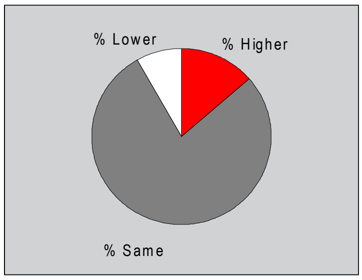


The survey uses a methodology identical to the HSBC Brazil Manufacturing PMI™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Brazilian services economy.

Business Activity Index

Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

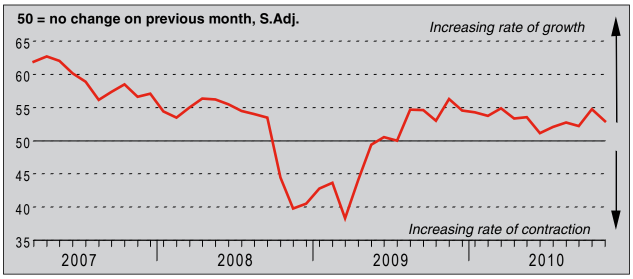


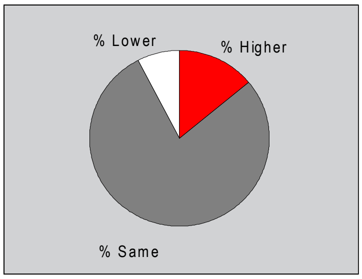


Business activity in the Brazilian service sector rose further in November, with almost 14% of firms reporting an increase since the preceding month. This compared to 8% that signalled a fall. Despite quickening to the fastest in three months, the rate of expansion was only modest and slightly slower than the long-run trend. Where a rise in activity was signalled, growth was commonly linked to greater inflows of new work. Five of the six sectors monitored by the survey recorded a rise in activity levels since October, with Hotels & Restaurants the exception.

New Business Index

Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

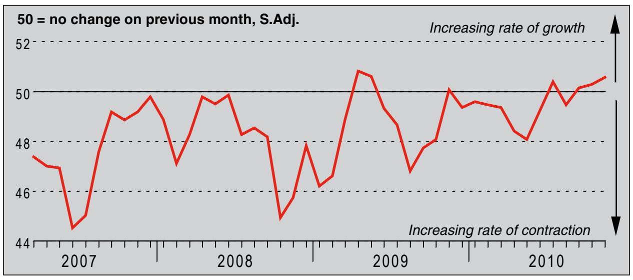


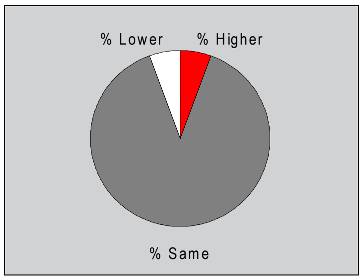


The level of new business received by Brazilian service providers rose solidly in November. Despite easing since October, the rate of growth was the second-fastest in six months. Exactly 14% of panellists reported an increase in new work compared to one month ago, which they generally attributed to rising client demand. By sector, 'Other Services', Post & Telecommunication and Renting & Business Activities recorded the fastest rates of expansion in new business.

Outstanding Business Index

Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.

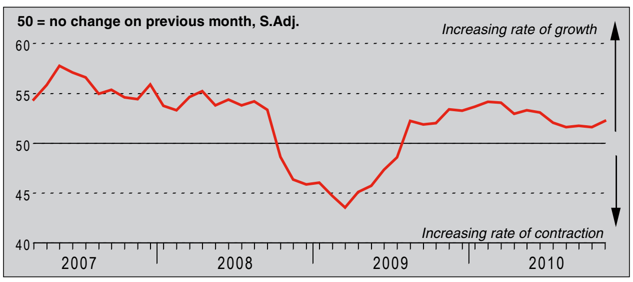


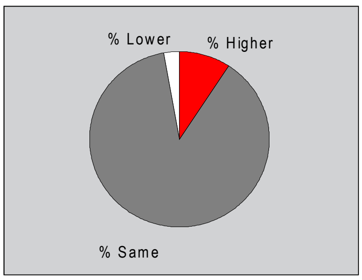


After adjusting for seasonal variation, the Outstanding Business Index posted above the neutral level of 50.0 in November, pointing to another rise in work-in-hand (but not completed) in the Brazilian service sector. Although only marginal, the pace of backlog accumulation was the fastest since May 2009. The latest increase was the third in as many months. Backlogs of work rose in four of the six monitored sectors, with Hotels & Restaurants and Renting & Business Activities the two exceptions.

Employment Index

Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).

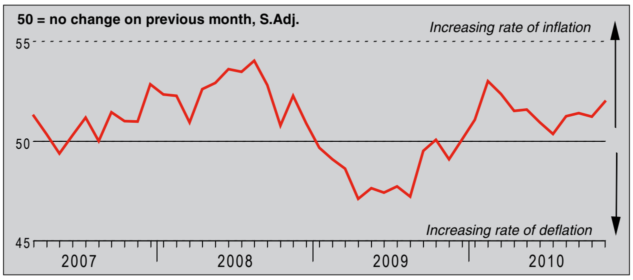


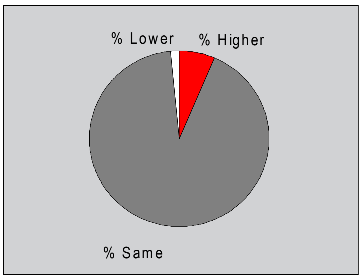


Services employment in Brazil rose during November, extending the current period of growth to sixteen months. The rate at which firms added to their staff numbers was moderate, albeit the fastest since June. Of those firms that reported a rise in employment since October (around 9%), many attributed growth to further gains in new business. By sector, Transport & Storage recorded the fastest rate of job creation, followed by Renting & Business Activities. Conversely, Hotels & Restaurants was the only monitored sector to register a decline in employee numbers.

Prices Charged Index

Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

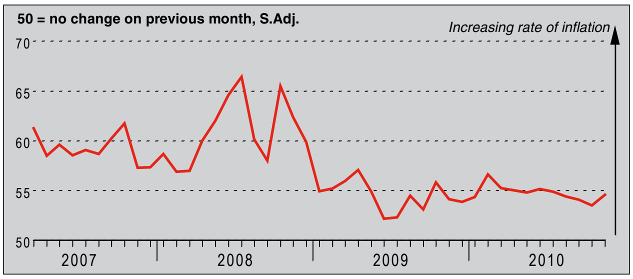


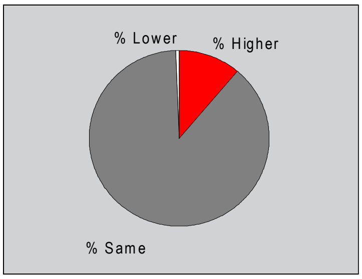


Output prices set by Brazilian service providers rose in November, with the rate of inflation quickening to the strongest since March. Nonetheless, the latest increase was only modest, with the vast majority of panellists (exactly 92%) reporting that output charges were unchanged since the preceding month. Higher charges were widely attributed to the need to rebuild operating margins in the face of rising input costs. Data revealed that output price inflation was fastest in Financial Intermediation during the latest survey period.

Input Prices Index

Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.

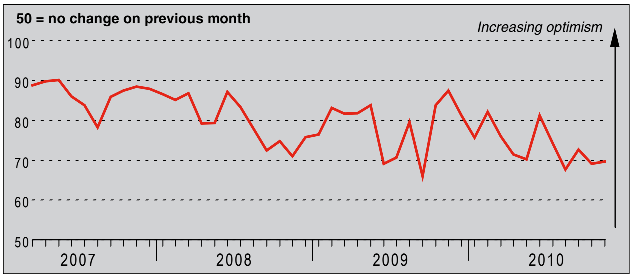


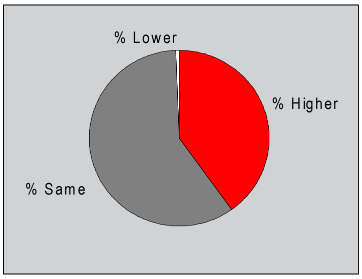


The seasonally adjusted Input Prices Index rose to a four-month high in November, pointing to a solid month-on-month increase in average cost burdens faced by Brazilian service providers. Anecdotal evidence provided by respondents suggested that higher input costs reflected rising raw material prices. By sector, input cost inflation was the strongest in Hotels & Restaurants. Nonetheless, the overall rate of inflation remained slower than the long-run series average.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?





Brazilian service providers were confident about the one-year outlook for business activity in November, with approximately 40% of the survey panel expecting overall activity to be higher in twelve months' time. Anecdotal evidence suggested that positive sentiment primarily reflected expectations that economic growth will continue to strengthen in the coming year. However, the degree of optimism remained much lower than the historical average for the series.

Notes on the Data and Method of Presentation

The Brazil Services PMI™ covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Warning